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April 11, 2006

BY EMAIL AND BY MAIL

Amy Zimpfer
Associate Director, Air Division
U.S. Environmental Protection Agency
75 Hawthorne Street
San Francisco, CA 94105

Re: Cabrillo Port Project
NOx Emission Reduction Project Status Report

Dear Amy:

By letter dated June 2005, BHP Billiton LNG International Inc. ("BHP") committed to you that it would mitigate emissions from Cabrillo Port, its proposed offshore LNG terminal (the "Terminal"), by converting 45 garbage trucks from diesel to natural gas. The conversion project would have equated to roughly a 39 ton per year reduction in NOx emissions. BHP further committed to explore opportunities for additional projects that would result in NOx emissions increases, up to the total annual Terminal NOx emissions (at that time estimated as 68 tons per year). This commitment was made as a good will gesture in light of the fact that the Terminal has insignificant impacts on onshore air quality and is not subject to offset requirements. This letter is intended to update you as to the status of BHP's efforts.

Since the time of the June letter, the garbage company with whom BHP had discussed the conversion project declined to enter into a contract for the conversions. As a result, BHP looked elsewhere for emission reduction projects. Because the Terminal's emissions are marine, BHP's preferred location for any emission reductions was from marine sources. BHP also considered this approach consistent with previous recommendations from EPA. Therefore, BHP entered into discussions with several marine vessel operators regarding their interest in engine repowering projects.

BHP is pleased to inform you that on April 11, 2006 it received a signed contract from Sause Brothers, a maritime tug operator, to replace the aging engines in one of its tugs with modern Tier 2 compliant diesel fired engines. Sause Brothers operates a long haul tug line between the Port of Richmond and the Port of Los Angeles/Port of Long Beach. The entire route of this

vessel is in California Coastal Waters. Because the engines in the vessel are quite old (30+ years) they are both significantly less fuel efficient and significantly higher emitting. By replacing the two propulsion engines and the two auxiliary engines with modern low emitting engines, BHP estimates that it can reduce NOx emissions by approximately 169 tons per year. These emission reductions are a direct benefit to the people inhabiting the California coast, as the tug travels north and south along the coast between the Terminal location and the shoreline. We have included a fully executed copy of the contract between BHP and Sause Brothers as documentation of BHP's right to these emission reductions. Please note that consistent with the terms of the contract we have redacted the financial terms. Please also note that the fuel usage numbers reflected in Attachment A are based on actual fuel usage. The calculations also do not necessarily reflect all the emission reduction benefits attributable to the increased fuel efficiency anticipated as the result of the engine replacement and vessel enhancements that BHP is underwriting.

In contrast to the 169 tons per year (or more) of NOx reductions that BHP anticipates from this tug repowering project, BHP currently estimates that the Terminal's NOx emissions (including vessels in District waters) will total only 66.7 tons per year. This means that the NOx emission reductions realized from this project will exceed the stationary source NOx emissions by more than 100 tons per year. The repowering project will also result in a significant reduction in diesel particulate—a pollutant of great concern in California. By executing this contract with Sause Brothers, BHP believes that it has fully met its obligation to find emission reduction projects equal to the stationary source NOx emissions.

BHP has also made a proposal to CARB that BHP believes satisfies its obligations to mitigate the vessel in Federal waters emissions. BHP recently proposed to CARB as CEQA mitigation for the vessel in Federal waters emissions the use of extremely low emitting engines in the tugs (previously the primary source of emissions) in addition to usage of natural gas as the vessel fuel. BHP's commitment to use natural gas as the fuel for the carriers, tugs and crew boat reduces NOx emissions from 664 tons per year to 163 tons per year. BHP estimates that utilizing the more expensive engines in the Terminal's two dedicated tugs will reduce NOx emissions in Federal waters by an additional 60 tons per year, thus reducing total NOx emissions from vessels in Federal waters to 96.7 tons per year. South Coast has lauded this offer on the tug engines, saying that the manufacturer's NOx specification for these engines (1.3 g/kW-hr) is "very good." BHP does not believe that additional CEQA mitigation is necessary or appropriate given that the onshore impacts of the vessels in Federal waters have been demonstrated through modeling to be insignificant. Nonetheless, BHP is pleased to note that the projected NOx emission reductions attributable to the tug repowering exceed the sum of the NOx emissions attributable to the FSRU, the vessels in District waters and the vessels in Federal waters.

BHP is pleased to provide you with this update on the company's successful efforts to obtain NOx emission reductions. If you have any questions about the Sause Brother repowering project or BHP's mitigation offer to CARB, please call me.

Sincerely,

Thomas R. Wood

cc: Renee Klimczak
Rick Abel
Margaret Alkon
Dwight Sanders
Mike Villegas